

The Impact of Financial Performance on The Share Price: Evidence from Listed Finance Service Sector Companies in Sri Lanka

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Abstract

Introduction: Financial performance is an important factor in attracting investors to buy shares and make investment decisions. This study examines the impact of financial performance on the share prices of the financial service sector in Sri Lanka. Therefore, the main purpose of the study is to explore “Is the relationship between financial performance and share price”, while special reference to listed financial service sector in Sri Lanka.

Methodology: Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin, Earnings Per Share (EPS), and Debt to Equity Ratio (D/E), were used as the dimensions of financial performance, while closing market price were used as the proxy of the share price. Secondary data was used and obtained from published annual reports in respective companies and CSE website. A quantitative research design was employed, analyzing panel data from 21 listed companies including finance, banking and insurance companies over the period of 2015–2023, yielding 189 observations.

Findings: According to the study's findings, two independent variables, such as return on assets and earning per share had a statistically significant relationship with the dependent variable of share price. and other independent variables had not statistically significant relationship with the dependent variable. The result highlights that the overall models are statistically significant. The study found out that there is a strong impact of earning per share (EPS) and return on assets (ROA) on Share prices of financial service sector in Sri Lanka.

Conclusion: The findings of the study have practical implications for investors and stakeholders to make their decisions respectively. Also, this study concludes that the proxy of financial performance can be used for investors to make decisions in respective to investing shares in financial service sector in Sri Lanka.

Keywords: Financial performance, Return on assets, Return on equity, Net profit margin, Earning per share, Debt to equity ratio, Share price